



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

<b>Bill #</b>	HB0254	<b>Title:</b>	Provide child tax credit
<b>Primary Sponsor:</b>	Monforton, Matthew	<b>Status:</b>	As Introduced

- ☐ Significant Local Gov Impact
 ☒ Needs to be included in HB 2
 ☒ Technical Concerns  
☐ Included in the Executive Budget
 ☐ Significant Long-Term Impacts
 ☐ Dedicated Revenue Form Attached

### FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$40,689	\$69,845	\$70,994
<b>Revenue:</b>				
General Fund	(\$15,884,000)	(\$31,484,000)	(\$30,873,000)	(\$30,184,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$15,884,000)</u>	<u>(\$31,524,689)</u>	<u>(\$30,942,845)</u>	<u>(\$30,254,994)</u>

**Description of fiscal impact:** HB 254 creates a non-refundable individual income tax credit starting in TY 2016, that is equal to 25% of the child tax credit created under section 24 of the Internal Revenue Code, 26 U.S.C. 24. The creation of a non-refundable child tax credit for TY 2016 would reduce individual income tax collections and general fund revenue by \$15.9 million in FY 2016. By FY 2019 the revenue impact of HB 254 will result in a revenue reduction of approximately \$30.2 million.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue**

- Under 26 U.S.C. 24, a taxpayer is allowed to claim a credit equal to \$1,000 for each qualifying child of the taxpayer against their individual federal income taxes. The credit amount is reduced based on the taxpayer's modified adjusted gross income, with a limit of \$110,000 for a joint return, \$75,000 for a non-married individual, and \$55,000 for married individuals filing a separate return. The state of Montana does not currently have a similar child tax credit under current law.

2. HB 254 creates a state income tax child tax credit, which would be available in TY 2016. The newly created state tax credit would be 25% of the federal child tax credit created in 26 U.S.C. 24. The new credit would also be non-refundable, have no carryback or carryforward allowance, and would not be available to married taxpayers filing on separate tax forms.
3. Under current law, HJR 2 projects individual income tax revenue will increase to \$1,213 million in FY 2016, and \$1,296 million in FY 2017. OBBP projects that individual income tax liabilities will increase to \$1,385 million in FY 2018 and \$1,461 million in FY 2019.
4. For TY 2016, the first year the state credit is available, the HJR 2 individual income tax model estimates that Montana residents will claim approximately \$191 million worth of federal income tax child tax credits. At a credit rate of 25% of the federal credit amount, Montana residents could claim up to \$47 million worth of child tax credits for the same tax year. However, the credit proposed under HB 254 is a non-refundable tax credit, which limits the size of the credit to each taxpayer's tax liability.
5. After adjusting the forecast model to include a non-refundable child tax credit, individual income tax revenue for FY 2016 is projected to be \$1,197 million, a reduction in tax revenue of approximately \$16 million. The updated forecast model projects income tax revenue will decrease by \$31.48 million for FY 2017, \$30.87 million in FY 2018, and \$30.18 in FY 2019.

Individual Income Tax Revenue under HB 254 as Introduced			
Fiscal Year	HJ 2 / OBBP Forecast	Child Tax Credit Forecast	Revenue Change
2016	\$1,212,526,000	\$1,196,642,000	(\$15,884,000)
2017	\$1,295,799,000	\$1,264,315,000	(\$31,484,000)
2018	\$1,384,695,000	\$1,353,822,000	(\$30,873,000)
2019	\$1,461,147,000	\$1,430,963,000	(\$30,184,000)

6. The department's business and income tax division expects the proposed tax credit will require an additional 1.00 FTE to audit income tax returns, starting January, 2017. The expected expenditures for the additional FTE are expected to be \$40,689 in FY 2017, \$69,845 in FY 2018 and \$70,994 in FY 2019. The individual income tax forms will require changes to incorporate the proposed tax credits. These changes will be incorporated into the department's annual forms process.

<b>Fiscal Impact:</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Department of Revenue</b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
<b>FTE</b>	0.00	0.50	1.00	1.00
<b><u>Expenditures:</u></b>				
Personal Services -BIT	\$0	\$31,006	\$63,040	\$64,087
Operating Expenses	\$0	\$6,385	\$6,805	\$6,907
Equipment	\$0	\$3,298	\$0	\$0
<b>TOTAL Expenditures</b>	<b><u>\$0</u></b>	<b><u>\$40,689</u></b>	<b><u>\$69,845</u></b>	<b><u>\$70,994</u></b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$40,689	\$69,845	\$70,994
<b>TOTAL Funding of Exp.</b>	<b><u>\$0</u></b>	<b><u>\$40,689</u></b>	<b><u>\$69,845</u></b>	<b><u>\$70,994</u></b>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$15,884,000)	(\$31,484,000)	(\$30,873,000)	(\$30,184,000)
<b>TOTAL Revenues</b>	<b><u>(\$15,884,000)</u></b>	<b><u>(\$31,484,000)</u></b>	<b><u>(\$30,873,000)</u></b>	<b><u>(\$30,184,000)</u></b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$15,884,000)	(\$31,524,689)	(\$30,942,845)	(\$30,254,994)

**Technical Note:****Department of Revenue**

1. The income limitation on the federal child credit is not adjusted for inflation.

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*Sponsor's Initials*\_\_\_\_\_  
*Date*\_\_\_\_\_  
*Budget Director's Initials*\_\_\_\_\_  
*Date*